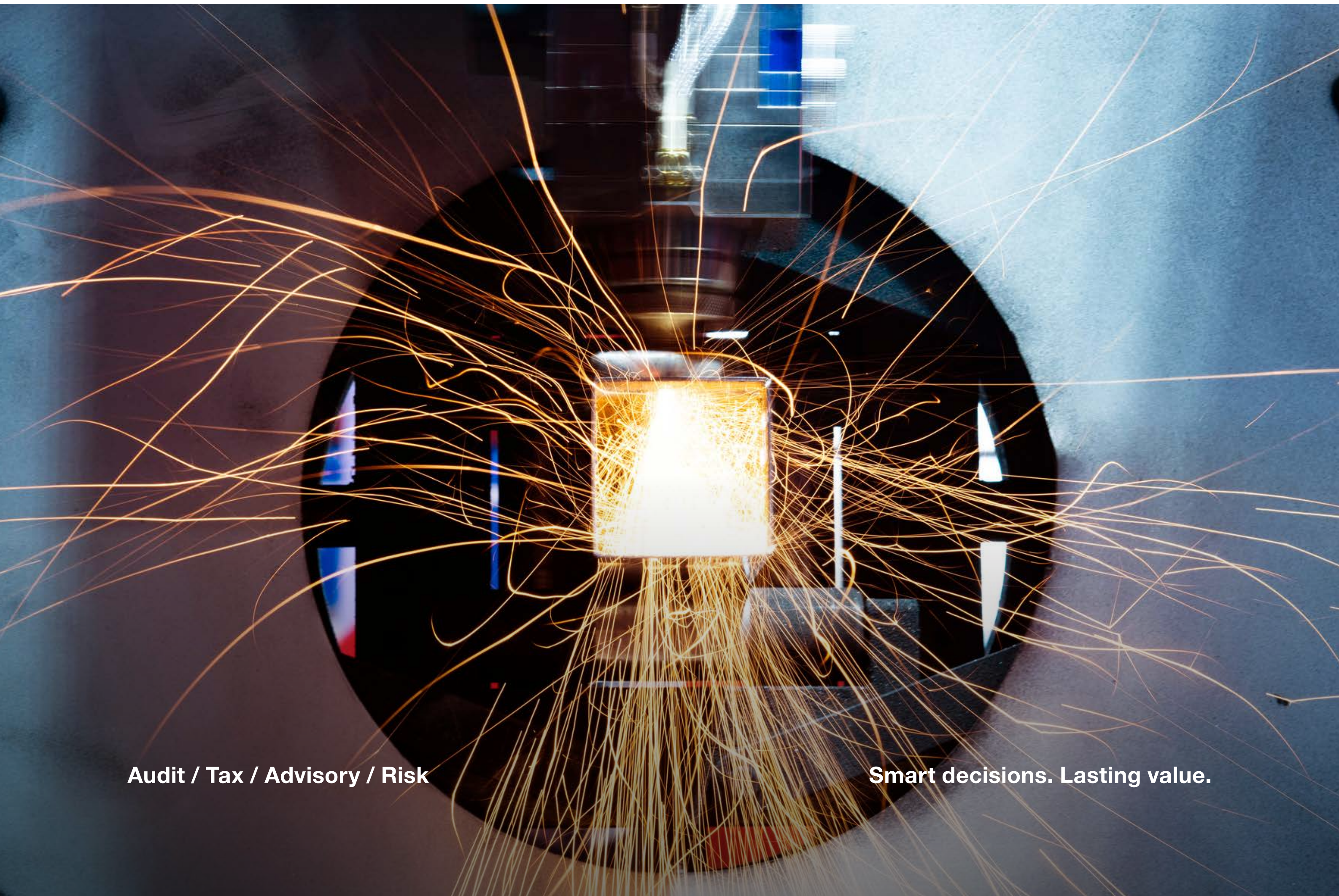
Crowe

CBM
CONFEDERATION
OF BRITISH
METALFORMING

Manufacturing Outlook Report
2021

In Association with CBM



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Introduction

Welcome to the Crowe 2020/21 manufacturing outlook survey, produced in collaboration with the Confederation of British Metalforming (CBM).

The past year has been dominated by the effects of the coronavirus pandemic (COVID-19) and in keeping with the campaign which we have been running throughout the year, 'getting back onto a new and safe track' is the theme of this year's survey.

We very quickly realised that after the initial shock to the manufacturing supply chains back in March 2020, there was a need to firstly stabilise businesses, then 'heath check' them to prepare for a return to what would be a new way of working.

At the time of publication, the UK has just entered yet another lockdown until at least mid-February 2021 and although this does not directly affect the ability of manufacturing businesses to trade, the effect on demand and also disruption caused by illness and ongoing childcare issues while schools are closed will impact some businesses.

> "There was still a good deal of positivity for the future.

Conversely, the successful conclusion of an EU trade agreement at the end of 2020 and after our survey closed, has provided welcome reassurance that movement of goods can continue between the EU and the UK in the future in a manner that protects manufacturing, albeit with a lot more paperwork and other issues involved.

The prospect of the rollout of vaccines over the winter and spring suggests an end to COVID-19 disruption and an EU deal also provides some greater certainty. Businesses need to use their time wisely to plan for what will be a different future.

The findings of our survey indicate that optimism for the future was understandably tempered by the uncertainty around in the survey period. However, there was still a good deal of positivity for the future which we hope will become reality as the year progresses.

Johnathan Dudley
Partner and Head of Manufacturing, Crowe

Overview

These results very much mirror the views of CBM members, which shows the effects have been widespread across all manufacturing sectors.

While results show that 83% of companies expect turnover to grow, we have to be realistic and say they are working from a very low starting point, mainly down to the effects of the pandemic.

With the time elapsed since the survey was taken and taking into consideration the EU Trade deal, this 83% would be considerably lower now. Especially given the prolonged lockdown we currently find ourselves in and the fallout from the trade deal with logistical issues and the effect of rules of origin, which will come into play.

The roll out of the COVID-19 vaccine is obviously a huge boost and despite the concerns we've seen regarding the trade deal, it's still a far better than a 'normal' deal. The big question is, when will normality return, which is very difficult to predict at this point. However we have to be positive and it's clear that things will improve and opportunities will arise.

The challenge for manufacturers is to be ready for those opportunities, this will be determined on how strong the companies are when they emerge from the pandemic. If they are burdened with debt they will need to focus on what's happening in front of them first, to clear the balance and then, hopefully, be in a position of profit.

The biggest challenge, outside any debt, will be rebuilding confidence in the markets and better sales. Those who deal with Europe will look to keep relationships smooth and avoid additional costs for both sides to protect the relationship and the margin. Small businesses need to be more agile and flexible but most importantly improve productivity, only then will they be able to realise the margins to trade profitably with the EU. Those that emerge the strongest will thrive both in the EU and globally by being able to benefit from new markets.

Manufacturers need to ensure their businesses are lean with no waste, they must strive to improve productivity to its maximum. These are the basics, but also fundamental in ensuring businesses are prepared to make the most of post-Brexit opportunities.

The UK is way behind our European competitors when it comes to digital technologies, which in turn has left us a long way behind on productivity. This is, in some part, due to the failure to invest in change, a lot of that is a result of uncertainty over the past four and half years and frankly, a lack of government support.

There are examples in the UK where this has been done successfully. These companies are now reaping the benefits but sadly it isn't happening enough.

It's critical businesses take this opportunity to change, to support re-shoring to the UK and the transformation to digital technologies. The Confederation of British Metalforming will be lobbying the government hard for more support for the manufacturing sector but UK manufacturers must embrace the change required or they will be left behind.

Stephen Morley
President of CBM,
Confederation of
British Metalforming

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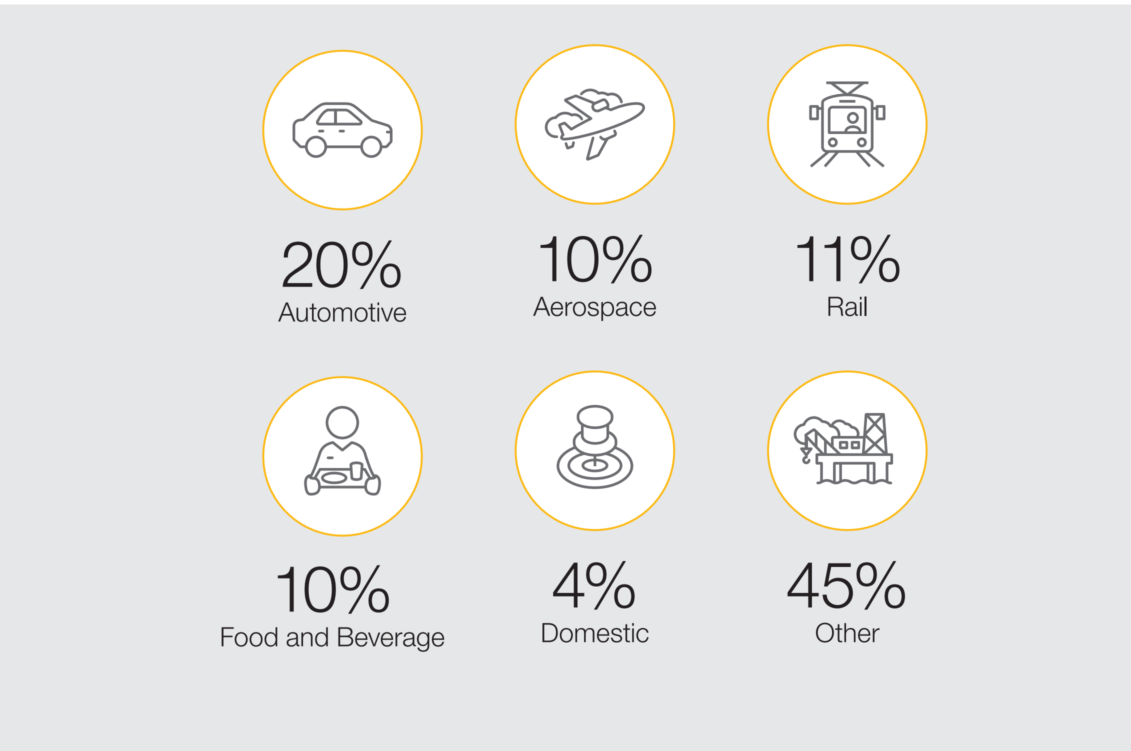
Survey respondents

Our survey was conducted between October and December 2020 and covered a range of businesses nationwide, across a number of sub sectors.

Automotive and aerospace together accounted for 30% of respondents with 11% rail, 10% food and beverages and 4% domestic supplies. The largest category, 45% was ‘other’ indicating that respondents either operate in sectors such as mining or oil and gas, or a combination of cross sector industries.



The type of manufacturing of respondents is evenly spread.

12% Precision Engineering

17% General

7% Plastics and Composites

17% Metal processing

10% Metal finishing

12% Forging and casting

7% CAD

18% Other and mixed

The range and diversity of processes and sectors adds credence to the findings of the survey and provides a representative indication of the views of manufacturing in general.

Key findings

How do you think Brexit will affect your business?

Moderately and significantly

70%

90%

At least partly agreed

Do you think Industry 4.0 will start to replace the more traditional manufacturing methods?

Why do you have trouble recruiting skilled employees?

47%

Not available locally

Yes

45%

In the next 12 months do you expect the turnover of your business to grow in size?

Do you think the government's measures to help businesses to get back on track after COVID-19 are adequate?

No

55%

Has your business been affected by the National Minimum Wage?

No 75%

Do you consider the government's incentives to be effective at promoting exporting?

No

74%

Where are your main competitors based?

49%

Overseas

Yes

31%

Has your company suffered either an attempted or successful cybercrime attack in the last 12 months?

Will the extension of payments for CBILS, Bounce Back Loans and annual VAT be of assistance or do you need more support?

31%

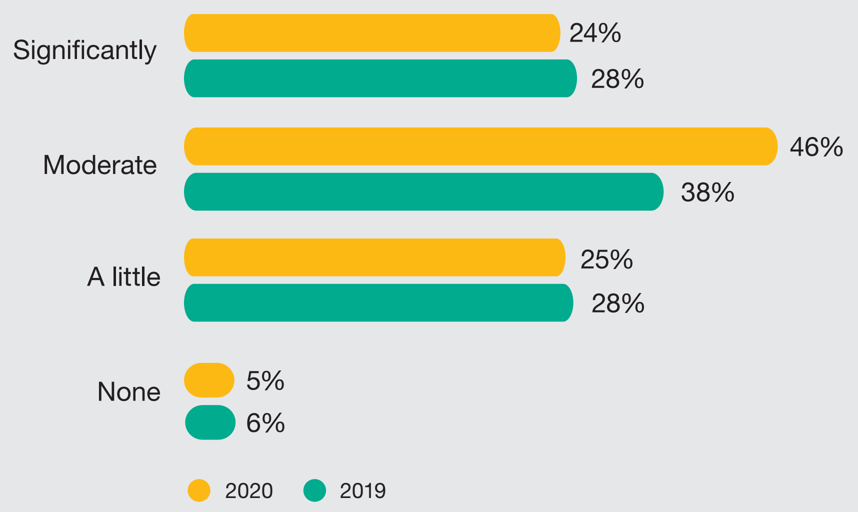
More assistance required

Brexit

The survey was taken at a time when the negotiations between the UK and the EU were ongoing and, at the time, there remained a real prospect of a 'no deal' which has turned out not be the case.

When asked the question, **'How do you think Brexit will affect your business?'**, in comparison to the survey results for 2019, we expected there to be an increase in the number of respondents saying that it would affect their business, given the immediacy of the end of the transitional period and the uncertainty of its nature at the time.

However, the results as shown, clearly indicate a realisation of the scale of preparations and change needed, regardless of deal or no deal upon businesses, both directly and indirectly. This was shown by the substantial interest in our Brexit readiness webinars which took place at the end of 2020.



When asked **what was most important for their business**, frictionless trade or the UK to be released from EU state aid restrictions, the majority of respondents stated that they believed frictionless trade would be more beneficial.

79%
Frictionless Agreement

21%
Release from State Aid

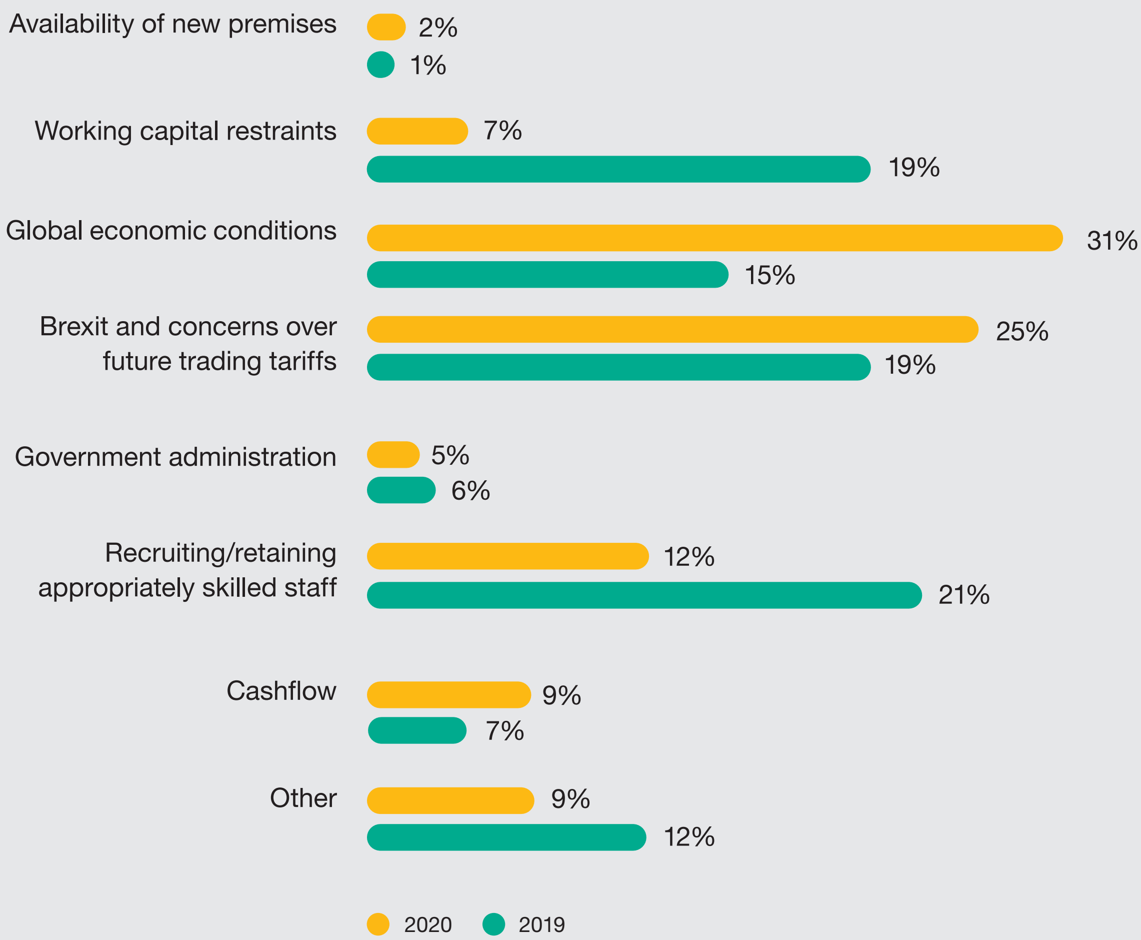
It is clear that the increased regulation and administration involved will have both cost and marketing implications for businesses that trade with the EU bloc. There is an imperative that businesses understand the new requirements as they apply them, and that steps are taken to mitigate adverse effects on their business.

At the time of writing, early indications are that there continue to be problems at boarders even though the EU deal was struck just before Christmas. These include issues such as a lack of knowledge concerning required documentation and country of origin issues, which have resulted in goods being turned away or subject to double excise duties. It is hoped that the EU agreement, which was in the end settled in a hurry against the December deadline, will be amended as many of these issues are not for the benefit of either the EU or the UK. Manufacturers need to take steps to maintain their supply chains and customers in the meantime.

Prospects for the future

Looking at barriers to growth, the results were both interesting in terms of absolute results and also in comparison to last year.

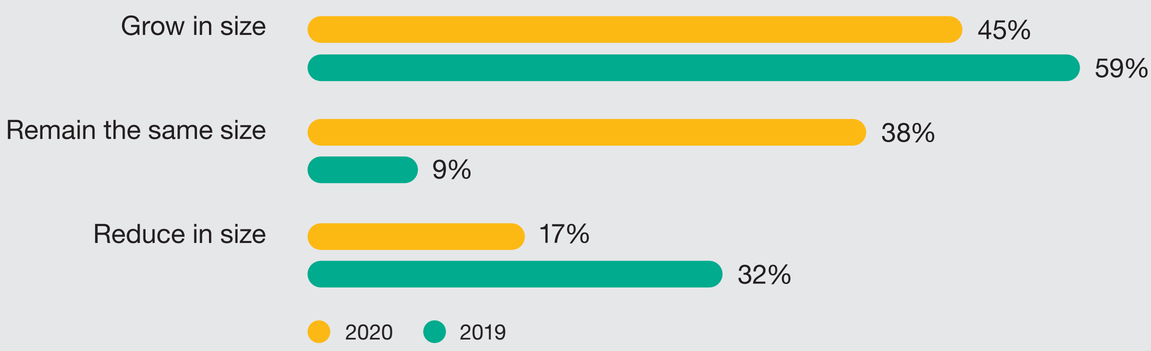
What is your main barrier to growth in the next 12 months?



Availability of government secured lending through the various coronavirus business interruption schemes has had an impact on the results, with working capital enjoying a 12% favourable swing. However, concern for external factors in terms of global conditions and Brexit, increased significantly for 2020. The need to recruit reduced by 9% as the post COVID-19 employment market clearly slackened, corresponding to less buoyant order books.

Conversely, when questioned about turnover prospects for the coming 12 months, 83% said they expected turnover to grow or remain the same with 17% expecting it to fall. This compares very favourably to 2019, though there was a reduced growth expectation compared to business remaining at current levels. Overall, a positive expectation given the circumstances at the time.

In the next 12 months do you expect the turnover of your business to:



This is somewhat contradictory to the barriers to growth question. More trade at higher levels will undoubtedly tighten both the labour market and demand for working capital and cash. Additionally, a higher proportion of respondents expecting turnover to remain the same, indicates that this may already be from the position of a reduced activity level generated by the pandemic. An expectation that this is not anticipated to improve in 2021 may not be as ‘positive’ as it first seems, given the low bases some may be starting from.

An increased level of static turnover requires work to be done on reducing costs to maintain profit growth and return on investment, in what is clearly going to be both an entrepreneurial and riskier business environment. To quote the saying, “it will be essential to heed the mantra of turnover for vanity, profit for sanity”, meaning that in a flatter growth period, there will be a need to drive down direct cost and overheads to maintain and improve profitability.

This may mean that price and profit per unit will need to increase, not always straightforward in difficult trading conditions where demand is matched or even short of supply.

This is especially the case if you are in an original equipment manufacturer (OEM) supply chain where the OEMs themselves are looking to improve their own profitability to cover reduced consumer demand.

Therefore, there will be a clear need to refocus and refashion business models to reduce waste in terms of cost, overhead and the maximisation of the utilisation of fixed assets and working capital, to maximise the return on the level of sales achievable this year.

This may of course require increased investment at a strategic level.

In terms of exporting assistance, in an economic environment where most commentators and government agencies see the future prosperity of the UK manufacturing sector as being ‘export led’, government assistance to increase exporting and to encourage businesses to even make a start is key. Back in 2019, there was a clear opinion on the lack of incentives available and though there is a modest improvement this year, there is still a belief that there is much more for the government to do to promote international trade.

74%

of respondents indicated that current incentives are ineffective. A pretty damning indictment.

Do you believe the government’s incentives are effective in promoting exporting?

26% Yes

74% No

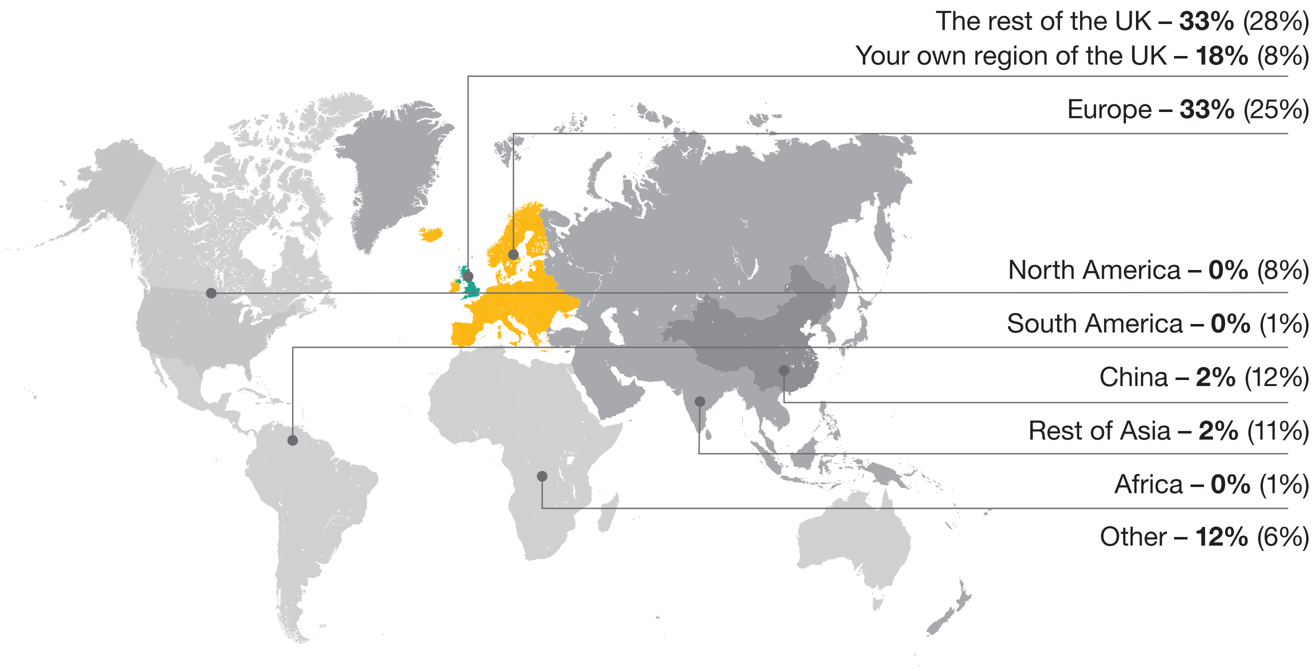
2020

20% Yes

80% No

2019

When asked about competitor locations, the respondents gave the following answers. 2019 results are in brackets.



These results, and in particular in comparison with the 2019 results, are interesting in that competition from European and UK competitors is perceived to be on the rise whereas, long distance competition, perhaps affected by the pandemic and the relative weakness of sterling against foreign currencies, is much reduced. Of particular interest is the much reduced competition seen from China.

Our discussions with manufacturers in the UK indicate that there is a significant movement towards 're-shoring' and work to protect supply chains in preparation for Brexit. This may have translated through into COVID-19 business supply interruptions too, as customers seek a more local, reliable supply source with shorter lead times and smaller order quantities. This clearly presents opportunity going forward for UK manufacturers, particularly if the value of sterling remains relatively low.

Although not covered by our survey, international trade has been significantly affected by an apparent global shortage of containers, which has magnified exponentially the cost of these by a factor of 10 times.

This is currently making many international trading activities uneconomical, at least in the short term. Against the background of COVID-19 and Brexit, the UK and other global governments must come together to strategically alleviate this issue as a point of urgency, to keep global trade routes open and viable as this is a global rather than just a UK problem.

Sales and Marketing

In a depressed and monetarily more competitive domestic and commercial marketplace, the need for effective sales and marketing activity is paramount. Manufacturers can no longer rely on OEMs absorbing capacity as they grow. The science of sales needs to be practiced.

Do you have a sales and/or marketing team?

4%
No

96%
Yes

Do you provide training for your sales and marketing team?

35%
No

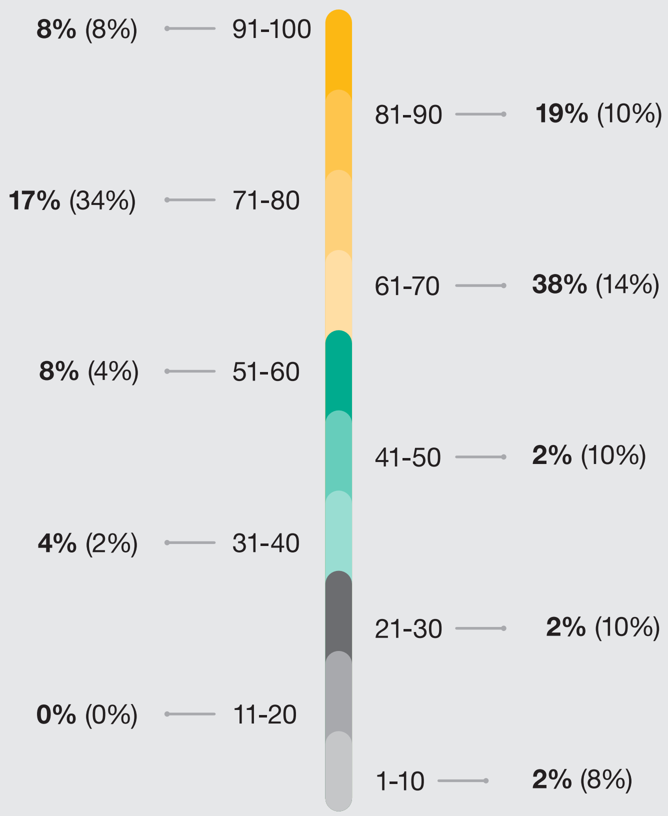
65%
Yes

96% of respondents confirmed that they have an active sales and marketing team – an increase of 5% on 2019.

44%

Yet of those, just 44% saw their effectiveness as being above 70%, compared with 2019, where the same measure indicated 52%.

How would you rate your sales and marketing team's effectiveness? 2019 results are in brackets.



This essential activity is both expensive and a key driver to business success and in that context, the above results are a cause for concern and action.

Many sales teams have found 2020 difficult in terms of mobility, networking and demand, some have spent much of the year 'furloughed'. As we emerge from the pandemic, its likely that some refreshing and retraining will be necessary based on these results. Manufacturers cannot afford for their key business drivers to be ineffective.

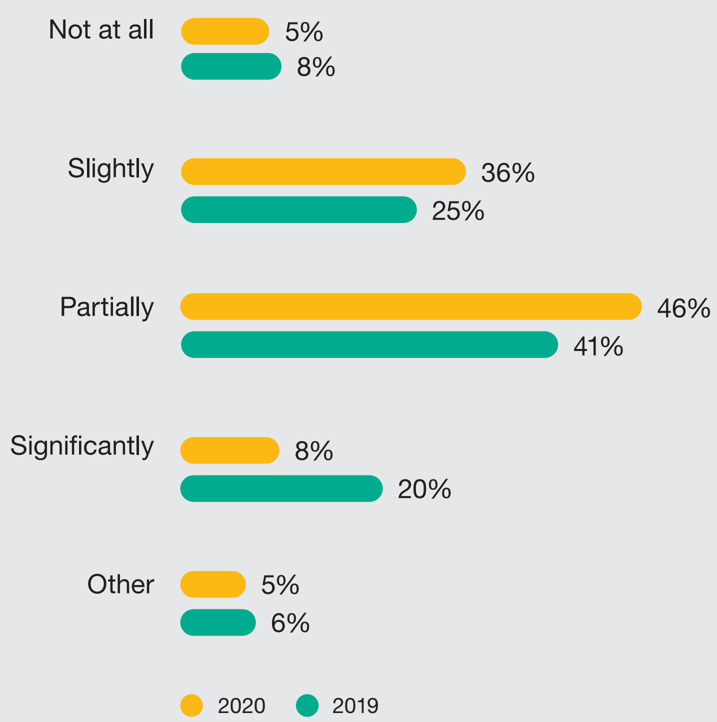
Manufacturing processes and resources

In 2019, the lack of digitisation of the sector was seen as a key block, both to productivity and competiveness, particularly compared with continental Europe.

The opportunities that an increasingly global environment with an abundance of trading possibilities present and can be accessed through digitisation is high. However, this is also a threat, as many in the market will be competing with each other to gain new market share in the 'post COVID-19 era'. Making sure that your business is digitising appropriately has never been more important.

The results to the question **'Do you think Industry 4.0 (i4) will start to replace the more traditional manufacturing methods?'** are notably different this year to last. With a trend more attuned to 'evolution rather than revolution', a greater proportion of respondents overall recognised that there will be some effect going forward, though less expect it to have a significant effect than last year.

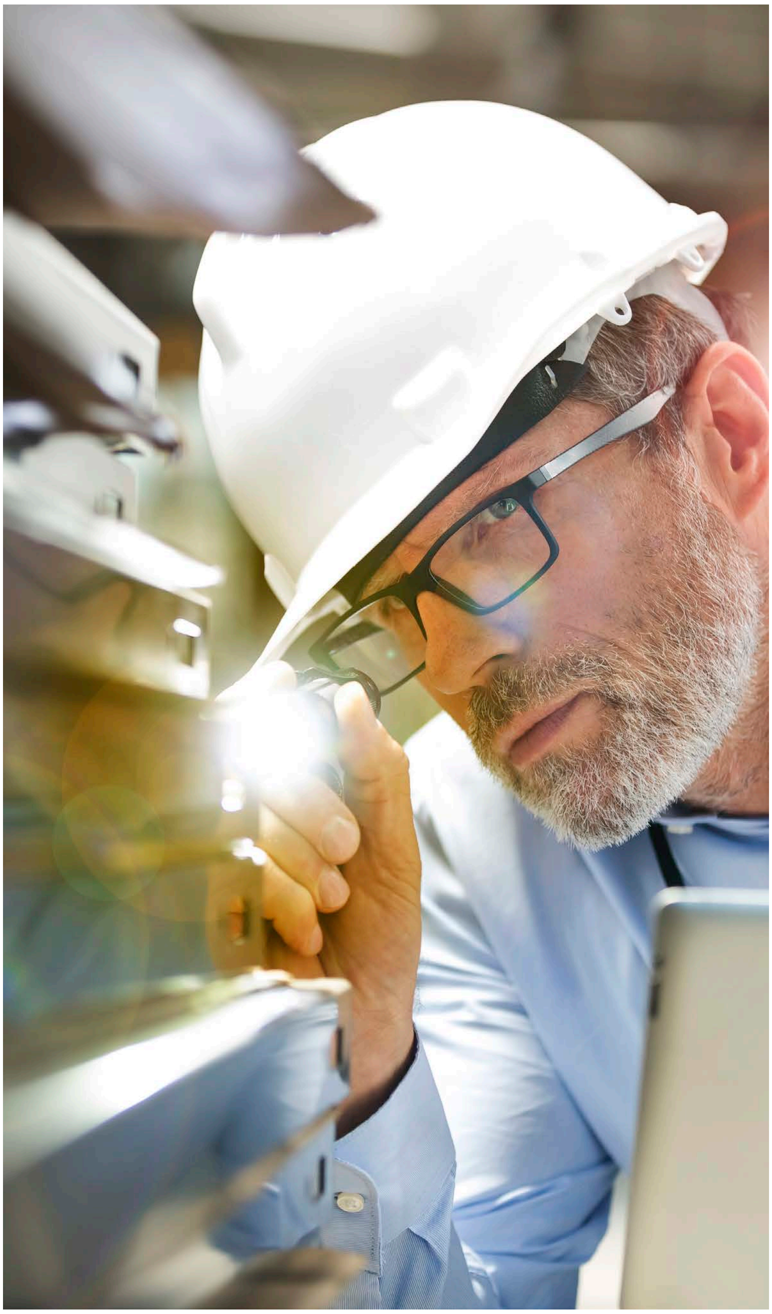
Do you think Industry 4.0 will start to replace the more traditional manufacturing methods?



It is a concern that some of these responses may have been influenced by a tendency to retrench from investment in tough trading times and bearing in mind global economic uncertainty. This is of course a worrying trait if indeed it does influence the necessary modernisation of the sector and could be seen as a ‘short term view’.

Results may also be influenced by a realisation that, in an environment where many businesses in the sector are now quite highly geared due to the need to fund the effects of the global pandemic. There may well be a lack of appetite for the banking and investment sector to support a short term programme of digital modernisation.

We would contend that in a market where global competitiveness, productivity and supply chain sustainability are key to the sector’s future in the UK, there is a strategic need for government and financial backers. To support the modernisation and drive for productivity, sustainability and efficiency in a sector where the gross value added (GVA) per employee engaged is so high that it is crucial to the health of the UK economy, beyond just the manufacturing sectors and belying its 10% direct inputs into the UK gross domestic product (GDP).



Raw materials

Supply and cost of raw materials has been affected during the year by the effects of the pandemic, both directly and indirectly.

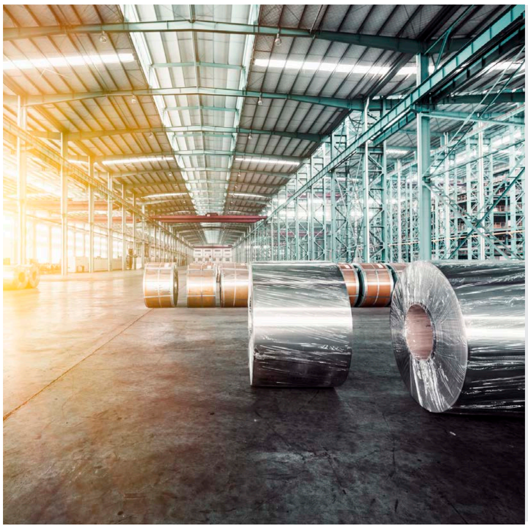
Initial supplies were in surplus back in late March and April in some circumstances. But as the year came to a close there was a significant shortage of certain grades of steel, for example, which in turn adversely affected supply chains.

Weakness of sterling, particularly against the USD, which is the underlying currency used to trade most valuable global commodities, especially metals, had a significant additional adverse pressure on prices and margins as is illustrated. Here we can see that there is an increased effect on profitability in a market where it is very difficult to pass on rising costs to customers.

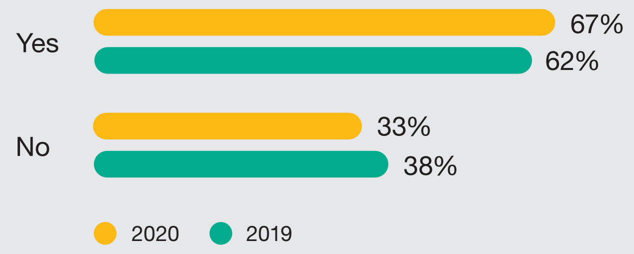
This is likely to have been a factor in respondents identifying global economic conditions as an increased barrier to growth in the future.

No business can influence global events and though 2021 promises more stability, post Brexit, post pandemic and with a new US president, manufacturers will still need to ‘control what they can control’.

Successful manufacturers will need to carefully manage this risk going forward, by securing their supply chain, effectively hedging against currency fluctuations working against them and including materials price escalators wherever possible.



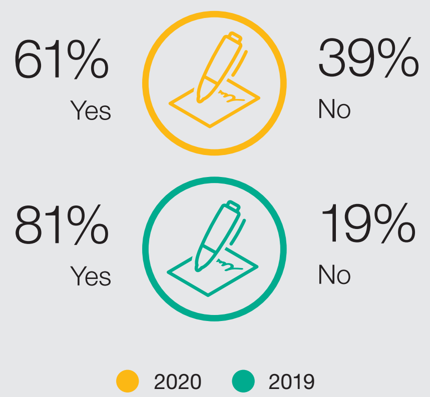
Has the profitability of your business been affected by the cost and/or availability of raw materials?



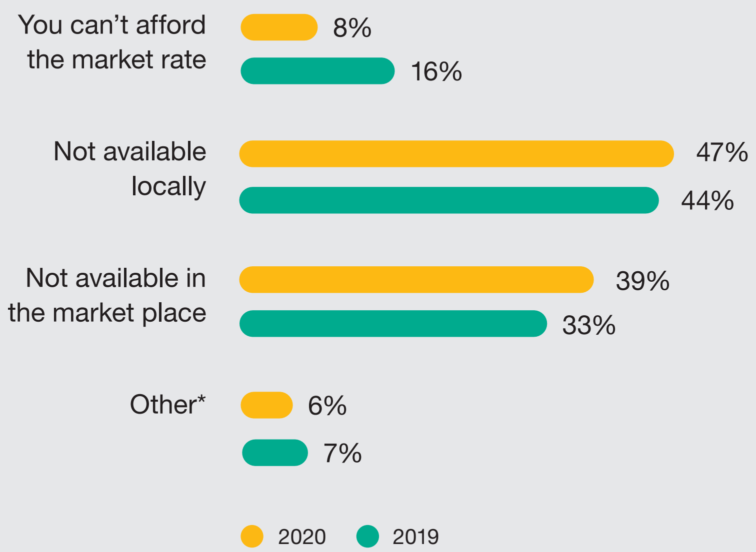
Employment

In terms of employment related questions, specifically skills and availability, the next group of questions painted a clear picture of desperate shortages in 2019, with an indication that the apprenticeship system needed reform as it was unfit for purpose, 2021 was no different.

Do you have difficulty recruiting skilled employees?



If you do, why?



The response gives a clear indication that the overall demand has reduced, as we might expect due to COVID-19, but the supply of skilled people still remains a challenge and interestingly, the position seems to have worsened in 2020.

Has your business been affected by the National Minimum Wage?

	Yes	No
2020	25%	75%
2019	40%	60%

Is employing foreign employees positive for your business?

	Yes	No
2020	74%	26%
2019	85%	15%

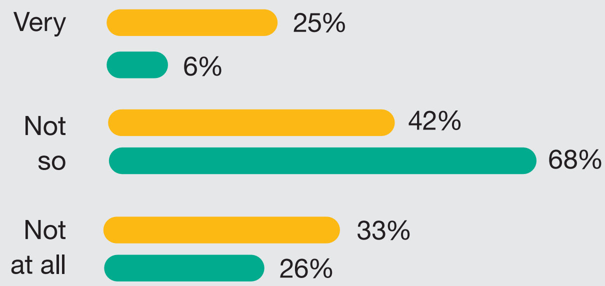
Demand for workers still seems to outstrip supply and the effect of the minimum wage seems to be a reducing concern for a sector which is generally high paid and highly skilled. The movement between 2019 and 2020 results clearly indicates that this is continually lessening as businesses seek to move up the 'value added' chain and would seem to support a drive towards greater automation.

While the responses between 2019 and 2020 about the effectiveness of the apprenticeship levy carry some inconsistency, still nobody felt the levy to be extremely effective and only 25% considered it to be better than average. Even though this seems to indicate a significant improvement on 2019, it still isn't enough to achieve a level of effectiveness and relevance to close the skills gap.

Anecdotal evidence cites the lack of flexibility in enabling apprentices to work continually, particularly in smaller entities, rather than being absent at college for blocks of time, which impedes production. Excessive administration and requirements for apprentices to attend sessions perceived to be irrelevant to their, or their employers perception of their job, can also be a negative factor.

Most worryingly, and this must be considered in the context of the results elsewhere, apprentices are (rightly) trained at college on the latest equipment and processes including i4 capabilities. They then have to work on older equipment requiring different skill sets at their employer. Not only does this foster the perception that the apprenticeship scheme is inappropriate to the employer, it also drives inefficiency, disillusion for the apprentice and ultimately over reliance on long standing employees in manufacturing businesses. This impedes succession, productivity and ultimately supply chain sustainability.

How effective do you think the apprenticeship levy is at improving skills within your business?



Research and Development

Innovation tax reliefs have been a key incentive provided by the UK government to encourage UK business to continue to innovate, solve technical uncertainties and add value to their products both now and into the future.

Departure from the European Union presents potentially even greater opportunity to incentivise UK business, as the regulations concerning 'state aid' are no longer fully dependent upon EU directives.

Our experience shows that almost all manufacturing businesses will engage in some form of R&D relief qualifying activity. It is about identifying and harvesting it.

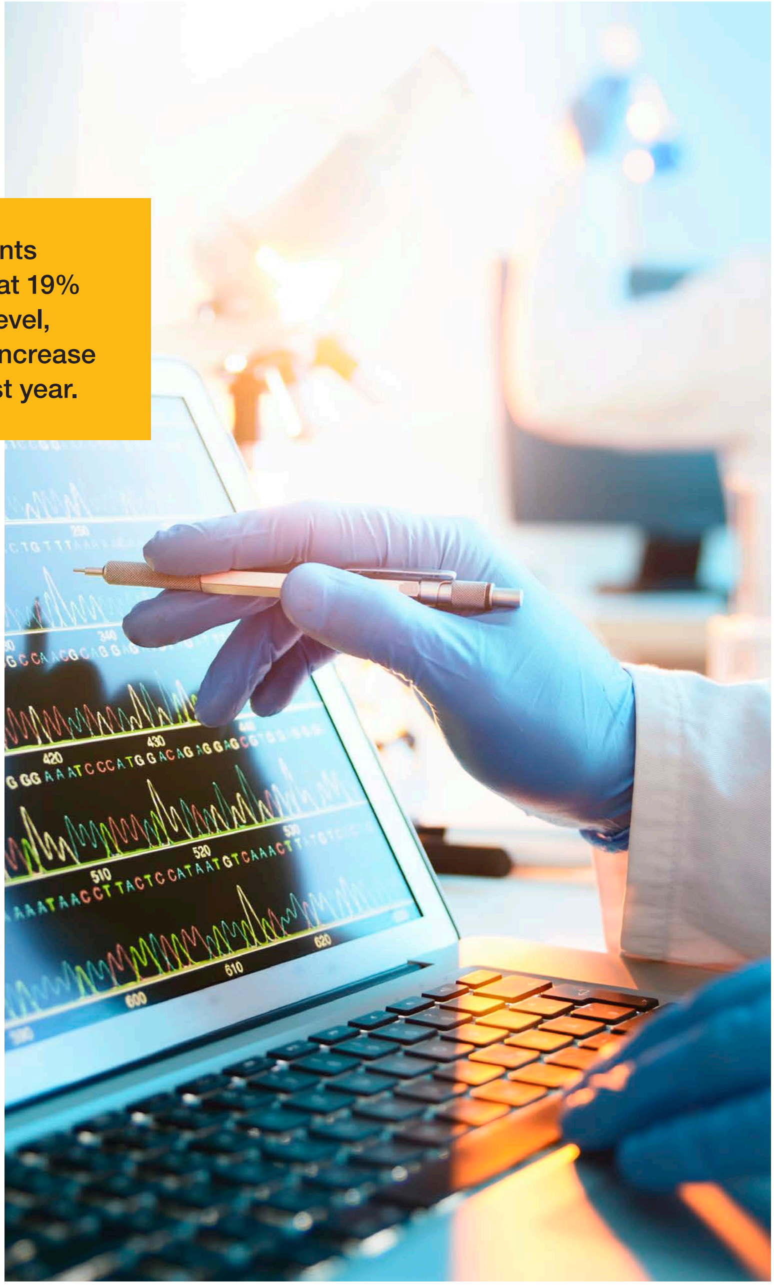
Government statistics continue to show relatively low level of engagement on the process across the market place and it is good to know that the responses below continue to outstrip that benchmark. As of 30 June 2020, there have been 59,265 R&D tax credit claims for 2018-19, of which 52,160 are in the SME R&D scheme. This is based on partial data for the year and expected to increase as more returns are received.

As of 30 June 2020, £5.3bn of R&D tax relief support has been claimed for 2018-19, corresponding to £35.3bn of R&D expenditure.

HM Revenue & Customs (September 2020)

In terms of Corporation Tax rates, we asked again whether the current 19% rate, in the face of several political calls to raise the rate to help pay for COVID-19, was still at the correct level.

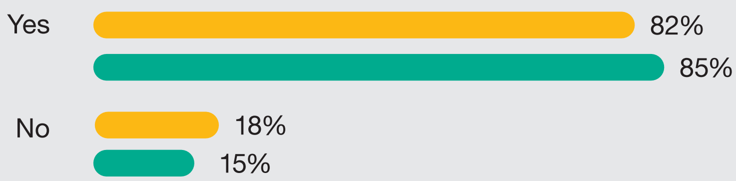
70% **of respondents indicated that 19% is the right level, actually an increase of 2% on last year.**



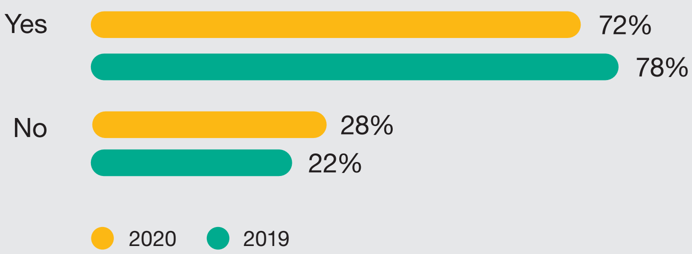
This is of course to be expected as nobody, if asked, invites a higher bill. However, if the rates do increase, then the value of incentives such as R&D and also the 100% Annual Investment Allowance, now confirmed as extended at £1 million for another year, rises too. Our research identified that before the impact of the pandemic was known there were insufficient cash incentives to foster investment.

If rates are increased, then the value of the benefits of incentive-based allowances increase with them. It will be interesting to observe over the next few weeks and months how the government will react to the need to fund its COVID-19 support programmes. Business will need to react accordingly to minimise any adverse effect and maximise the benefits.

Do you think that the existing rules for Research and Development tax credits apply to your business?



If answer to above is yes, have you made a claim in the last 12 months?



Two observations emerge from the above:

- have the 18% of respondents who don't consider R&D tax relief as applicable to them really taken the right advice?
- of those businesses who do consider it to be applicable, the reduction in claims this year to last year (with now 28% saying they have yet to make claim, compared to just 22% in 2019), would indicate that the impact of the pandemic might have distracted businesses.

Since the pandemic took hold, at Crowe we have been using R&D relief as a key tool in restoring the finances of businesses and of course, at any one time, if you haven't made a recent claim, it is possible to make claims for all periods of tax account still 'open'.

In an environment where, every effort will be needed to generate the funds to 'get back on track', this valuable relief needs a second look. At Crowe, we can help you. Please start the conversation.

For example, if an SME company's year end is 31 March, then up until March 2021, R&D claims can be made in respect of qualifying R&D activity as far back as 1 April 2018 if not already claimed.

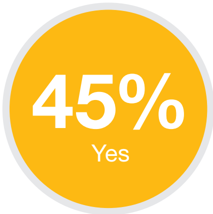
If an SME company identified qualifying R&D expenditure of £100,000 per year, this means that for the years ending 31 March 2019 and 2020 there is £200,000 of qualifying expenditure which has only so far enjoyed 19% of tax relief or £38,000 in value.

By identifying such expenditure now, submitting a claim for SME R&D relief could generate a corporation tax saving or repayment to the company of up to £49,400. Even 'non tax paying companies can benefit from these repayments.

Government support and influence/COVID-19

Naturally, given the events of 2020, this is clearly a key area both in terms of measuring the fortunes of the sector in 2020 but also the prospects for the future.

Only 45% of respondents replied in the affirmative when asked '**Do you think the government's measures to help businesses to get back on track after COVID-19 are adequate?'**, despite a package of support across business which is unprecedented in modern history.



It is true that the 'COVID loans', Crown Debt (PAYE, VAT and Corporation Tax) deferral and of course the Coronavirus Job Retention Schemes (CJRS) (furlough) schemes have sought to support businesses through the various lockdowns. These packages though, merely put businesses into survival mode, protect jobs and funds that might otherwise have been earmarked for investment and growth, are now necessarily appointed in supporting overheads that continue to be incurred despite reduced activity levels.

Apart from CJRS, manufacturing has not benefitted from grants but by a generation and extension of debt, which will need to be repaid at some point.

While the removal of lockdown promises a resurgence of custom in the hospitality, retail and leisure sectors, this is not so certain in manufacturing sectors, especially where inactivity has removed or reduced demand. This will require a longer 'run up' to be restored than other sectors, where ironically there has been more grant based support.

Supply chain demand in aerospace, automotive and rail sectors, for example will take time to be restored in a period that will extend beyond the end of lockdown restrictions and manufacturers know this.

When the third lockdown started in January 2021, there was a clear frustration in the sector that there is no support for manufacturers enabling them to refashion their businesses to cope with this change in demand, The results shown reflect this.

Business support and funding

The support offered by business networks and professional advisors has naturally been impeded by the pandemic.

However, professional bodies, chambers of commerce and the like have reported an increased level of support and engagement, even in the new virtual way of working.

In 2020, 62% (compared to 58% in 2019), confirmed that they were a member of a manufacturing based network. It remains to be seen whether this changes after the pandemic, but it's highly likely that ongoing engagement, best practice sharing and even networking and marketing will, at least in part, remain virtual into the future.

Are you a member of a manufacturing network?

62%

Yes

Who is your go-to-external advisor for business advice?

29%
External Consultant

27%
Accountant

10%
Non Exec Director

10%
Trade Association

24%
Other

When asked who their 'go to advisor', a larger proportion cited consultants and accountants. But interestingly, there has been a rise in the influence and validity of trade associations. It specifically excludes both bank managers and lawyers from survey responses as these professions are now perhaps seen as more 'transactional' rather than holistic in their advisory capabilities.

In 2020, there was a high level of availability of COVID-19 government backed debt which will have enabled banks to support businesses better than they might otherwise have done. Although just 10% of respondents said that they had sourced funding from banks, this improving relationship will stand businesses in good stead for a future where relationships with funders will be key to success.

The availability of government secured debt has really helped business in 2020. However, there needs to be continued finance and investment support to fund growth and improvement in the future.

31% responded that more assistance was needed in addition to COVID-19 debt.

There will be a significant challenge to do this, for the funding sector, when the government secured lending comes to an end. The 31% who indicated that 'more help is needed', is significant. Funding will be needed going forward to thrive, rather than just survive.'

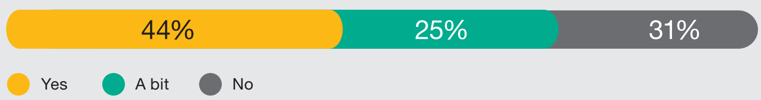
Asked whether the extension of schemes would help or whether more assistance was needed revealed:

Comparatively, the quality of relationship with bankers, remains positive

42%

Very good

Will the extension of payments for CBILS, Bounce Back Loans and annual VAT be of assistance or do you need more support?



Fraud and Cybercrime

Lastly, in the face of increasing national statistics concerning fraud and cybercrime we added two questions in this year's survey and the results absolutely vindicate this decision.

Has your company **had any incidents of suspected fraud (either external or internal)** in the last 12 months?

12%
Yes

Has your company **suffered either an attempted or successful cybercrime attack** in the last 12 months?

31%
Yes

12% of the respondents confirmed that they had experienced incidents of suspected fraud in the last year, and 31% indicated that they were aware of either an attempted or successful cybercrime attack in the last 12 months.

These results are really concerning as they record just what respondents know to be the case, and of course there may have been instances that remain undetected at this point. It is also true that every incident of fraud or cybercrime is hugely costly in terms of funds lost, as well as disruption and rectification. These statistics will be concealing a great deal of lost money.

Fraudulent activity historically always increases in times of economic hardship and an increased reliance on digital systems will further extend this trait as there is no longer a physical need for a perpetrator to ‘put their hands in the till’. Fraud and cybercrime now represent over 40% of all crime in the UK and the financial and reputational risk from falling victim to such crime can be devastating.

We strongly recommend that businesses carry out fraud and cybercrime assessments of their businesses. In the future, it is highly likely that supply chain enquiries will require such activity and certification in the same way as they have previously sought BS and ISO accreditations.

Crowe can help you with this, so please start the conversation.

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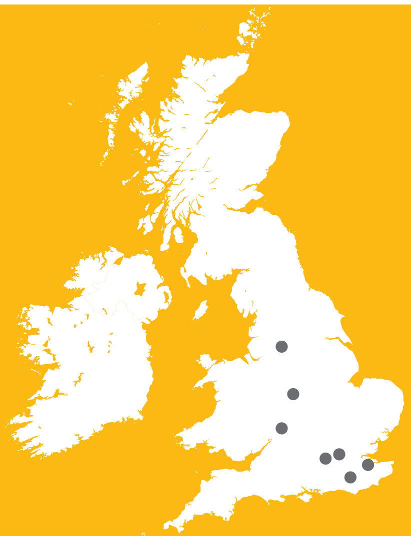

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people in the UK

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9th
largest UK audit firm[∂]

Ω By number of audits of listed companies, FRC Key Facts and Trends in the Accountancy Profession, Figure 38. (October 2020)
∂ FRC Key Facts and Trends in the Accountancy Profession Figure 33: UK fee income of audit firms that audit PIEs – by fee income on audit (October 2020)

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About Us

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